
NGO SUSTAINABILITY IN A TIME OF HOPE AND APPREHENSION

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A CLIMATE OF CHANGE AND STAGNATION

This year's edition of the *NGO Sustainability Index* is issued against the backdrop of dramatic democratic transitions in Ukraine, Georgia (2003), and possibly Kyrgyzstan, the latter still very much in flux as the report goes to press. The influence of Georgia's so-called "Rose Revolution" on political processes in the other two countries and on activists across the former Soviet Union and beyond has generated speculation that inspiring developments in these heretofore only nominally democratic countries could presage a new wave of popular movements leading the way to far-reaching political reform. That leaders in Russia, Uzbekistan and other former communist countries and Soviet republics have clamped down on civil society in response to these events elsewhere in the region is testament to the possibility of a democratic contagion.

At a time when many analysts and assistance providers were despairing about backsliding across the former communist space, particularly Eurasia, and lamenting the seeming inability of democracy and human rights forces to drive the reform process forward, this recent set of breakthroughs has reinvigorated academic and practitioner discourse about the potentially transformative role of civil society in moving countries along the democracy and governance continuum.

From the standpoint of this report, the stunning success of non-governmental organizations (NGOs) and ordinary citizens in helping to bring about the demise of increasingly authoritarian and/or corrupt quasi-democratic regimes --what noted commentator Thomas Carothers calls "gray zone" countries-- does not mean that the Third Sector has attained a level of political, organizational and financial capacity required for sustainability. Indeed there is legitimate concern on the part of NGO activists and their backers in the foreign policy and donor communities that the coming to office of demonstrably reform-minded governments in Kyiv, Tbilisi and perhaps Bishkek will lead to a misguided sharp decline in funding for and attention to civil society in those

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three countries as attention predictably and perhaps inevitably shifts to bolstering the capacity of state institutions.

In this view, civil society would now be looked upon as having only a minor, supporting role in the central drama of effective governance, the main elements of which are widely understood to include a legal and regulatory environment based on the rule of law and that fosters a flourishing market economy, and provision of other public goods (e.g. security, education, health care etc.), which serves to garner popular support for the reform process. Within the ranks of civil society, in contrast, NGOs are seen as pivotal to consolidating democratic momentum in part by holding governing institutions accountable and ensuring sound implementation of reforms. These advocates draw a distinction between the formal institutions of *government* and the processes and norm-based practices that constitute *governance* and contend persuasively that the latter necessarily involves a consequential role for civil society.

The *2004 NGO Sustainability Index* also is published against the backdrop of an elevated priority within USAID and the State Department to address state fragility. One of the central lessons emerging from the horrific events of September 11, 2001 is the danger of ignoring weak states that can become a haven for transnational networks of extremists that pose serious security risks for the U.S. and the wider international community. President Bush stated in his second inaugural address, that the expansion of democracy -- processes, practices, and values-- is a powerful antidote to the injustice and hopelessness that is thought to fuel political extremism.

Well-functioning democratic systems built on the rule of law and the safeguarding of minority rights usually enjoy high levels of legitimacy and have an array of mechanisms to help channel dissent and political competition in constructive ways that minimize the risk of deadly conflict. For this reason, democracy building, of which empowering civil society is an essential component, is a central pillar of U.S. foreign policy. Further, creating greater space for citizens to express their views, to organize around common interests and to hold decisionmakers accountable through regular, competitive elections (and other means) is seen as ameliorating the conditions that often radicalize the marginalized and alienated segments of the population.

But while the long-term time horizon does not countenance serious trade-offs between democratic advance and system stability, the near-term can pose significant challenges. The introduction of democratic principles and practices together with the empowerment of ordinary citizens can be highly destabilizing as entrenched elites respond by staunchly defending their privileged position. In some regions, most especially but not only the wider Middle East, the numerous failings of many authoritarian regimes has resulted in strong popular support for more radical groups with orientations and programs generally considered inimical to U.S. interests. Free and fair elections and unfettered political space would almost surely result in dislodging many sitting regimes, some of them closely

aligned with the U.S. Of greater concern to democracy proponents, these opposition political forces could use the democratic process to subvert it -- a scenario summed up in the clever, ominous phrase "One person, one vote, one time".

In the post-communist nations, this dilemma confronts U.S. policymakers most directly in Central Asia. In Uzbekistan, for example, a country judged by Freedom House to be among the most repressive in the world, USAID, the State Department and other USG agencies have been pushing political liberalization, including through support of the nascent civil society sector, to the chagrin and discomfort of President Islam Karimov. At the same time, Washington seeks the host government's cooperation on a range of programs to enhance U.S. security, not least of which involves the presence of a large military base considered vital to military operations in Afghanistan. With the rise of Islamic militants (to many observers a predictable outcome of harsh government repression), Uzbekistan is now seen as the front lines in the war on terror, as well as the war on drugs and prevention of trafficking in weapons of mass destruction technologies. In sum, efforts to bolster the capacity of democracy and human rights groups to advocate for greater openness of the political system could stand to weaken a government deemed essential to advancing other key U.S. interests.

The potential trade-off is much less stark in other post-communist countries where regime instability is either a low risk (e.g. Russia, where President Putin remains highly popular) or of less concern (e.g. Belarus, where the downfall of Alyaksandr Lukashenka's Stalinist regime would be welcomed in Western capitals). Still, a robust civil society better able to press its demands with governments that may have a modicum of political will but lack the capacity to respond effectively, has not always been welcomed by host-government reformers or bilateral and multilateral donor allies who worry about ill-advised concessions to popular demands.

It is certainly the case that new pro-reform governments in Ukraine and Georgia like their predecessors in Slovakia, Bulgaria and elsewhere find themselves under greater pressure to deliver, especially on the socio-economic front, and face greater scrutiny precisely because civil society is a potent force in political life. On the other hand, governments that come to power through popular democratic movements as in Poland and Czechoslovakia have tended to enjoy more room for maneuver owing to the greater legitimacy and concomitant patience they are accorded by the citizenry. Governments committed to political and economic reform also are more likely to create conditions conducive to NGO sustainability (i.e. the countries regarded as the most democratic register the best scores on the *Index*) even as they attract many NGO veterans, leaving the Third Sector at least temporarily depleted of some of its most capable leaders.

IMPEDIMENTS TO BUILDING A ROBUST NGO SECTOR

Balancing competing and at times orthogonal U.S. interests in empowering citizens to influence decisions that affect their lives while bolstering stability is but one of the challenges involved in the larger process of promoting NGO sustainability. The ex-communist countries of Central and Eastern Europe and the former Soviet republics continue to confront a panoply of problems that profoundly affect the prospects for sustainability of the Third Sector. Even in countries that have successfully navigated the transition to free-market democracy, civil society still faces formidable challenges in becoming an effective and durable force in national political life. In many countries, stagnant economies, inept and/or authoritarian political leaderships, deficient legal frameworks (covering everything from NGO status to laws on charitable giving), and sharply reduced donor resources combine for an inhospitable climate for achieving sustainability of the NGO sector.

Perhaps having learned the advantages of avoiding unnecessarily antagonizing Western governments and publics, leaders in the least democratic former communist countries/republics are expanding their repertoire of ways to stifle civil society and NGOs to include less heavy-handed tactics. While some regimes still reflexively resort to the club and have engaged in heinous acts against real and imagined political opponents, others also have adroitly employed seemingly legalistic means to scuttle or control civil society. Primarily in the former Soviet Union, governments have used selective enforcement of convoluted tax laws, excessively bureaucratic licensing and registration requirements, creation of compliant state-sponsored groups to compete with genuine NGOs, and other less harsh but nonetheless effective ways to limit the ability of citizens to organize to advance shared interests.

The Sustainability Index reflects the growing political-economic development divide between the western and eastern halves of the former communist empire, which has been ably documented by Freedom House (*Nations in Transit*), the European Bank for Reconstruction and Development (*Transition Report*) and others. Repressive and corrupt regimes in Central Asia, Belarus and parts of the Caucasus alongside democratic backtracking in Russia pose significant obstacles to NGOs --particularly those involved in promoting democracy and human rights-- and their prospective impact on public policy. The Third Sector in Europe's southern tier faces its share of hardships but nowhere near that of their counterparts in most of the former Soviet Union.

The combination of economic decline and authoritarian rule also helps to fuel extremist movements, which in turn are used by some governments already hostile to democracy to justify curbing civil liberties and clamping down on NGOs, political parties, independent media and other non-state political actors. Rampant corruption, transnational crime (principally trafficking in drugs and persons), and the spread of infectious diseases all

contribute to instability and retard socio-economic and political development that would make sustainability for the Third Sector a more achievable goal.

The difficult economic conditions that continue to beset the large majority of the region's population (robust growth rates in some countries, notwithstanding) adversely impacts NGO sustainability not just in terms of diminished prospects for local fundraising, but also in seeking to attract volunteers to power indigenous groups and movements.

Neither philanthropy nor volunteerism is well developed, the latter another of the sad legacies of the communist past when citizens were all but compelled to participate in a kind of contrived public life in the form of state-sanctioned organizations. With so many individuals and families having fallen below the poverty line, recruiting people to donate their money, time and energy to a given cause on an ongoing basis (as opposed to short-term mobilization) has become an even tougher sell. This is all the more true in countries where involvement in democracy and human rights work can be dangerous. So just at a time when there is new hope and also tremendous need, the nascent spirit of volunteerism is being put to the test.

Macro political and economic constraints are not the only brake on NGO sector development. Many of the impediments to Third Sector maturation are internal and cannot be attributed mainly to resource shortfalls. These often self-inflicted shortcomings are chronicled in the individual country reports and include deficiencies in constituency identification and outreach, strategic planning, coalition building, media relations, and financial management to name a few. Together with the aforementioned problematic political and economic environment in which NGOs in the post-communist world have to operate, it is not difficult to see why robust sector sustainability has proven elusive some fifteen years after the collapse of the Berlin Wall.

HOW TO THINK ABOUT SUSTAINABILITY IN THE EUROPE AND EURASIA CONTEXT

Given the raft of challenges confronting civil society actors and donor institutions it is fair to ask what sustainability means in the context of the post-communist space. What are realistic expectations in a part of the world struggling to make the transition to stable, democratic and prosperous societies and which lacks a history of both civic culture and philanthropy? What can reasonably be expected of a relatively young sector in old and brand new countries that have thrown off the decades-long communist yoke less than a generation ago and in many cases traded one form of authoritarian rule for another? How far can NGO sector sustainability advance where highly restrictive regimes impede the all-important requisite legal environment and how much democratic backsliding can the sector be expected to prevent or to weather? Is a linear progression spanning the *Index's* main categories possible? Is the emergence of a small set of generally effective,

financially independent NGOs based mostly in the capital city sufficient to declare success in achieving sector sustainability?

Experts do not necessarily agree on whether the NGO sector should be able to stand on its own after several years of financial and technical assistance. Nor is there a consensus on whether to apply the same standard to different types of NGOs, for example, social service delivery groups versus human rights and democracy organizations or those involved in truth, justice and reconciliation work. The latter set are championing an abstract public good the value of which is often unrecognized by the citizenry, thereby rendering sustainability less feasible. The *Sustainability Index* provides a fairly sophisticated way to gauge headway across several categories by defining different stages within each but the *Index* cannot answer the larger question of what constitutes acceptable progress.

There is legitimate concern even in the most developed of the former communist states that hard-won progress in building an effective NGO sector could be eroded as groups face the reality of greatly reduced donor funding and mediocre prospects for tapping indigenous sources of financial support while contending with a spate of other daunting challenges.

It is instructive to examine the Baltic States and the northern tier of Central/Eastern Europe. As documented in the *NGO Sustainability Index*, the Third Sector in all of these countries has made substantial strides, registering strong scores across the board. And yet the decline in USG resources, even if offset by new funding from the European Union, in tandem with other problems plaguing the sector has demonstrated just how difficult sustainability is to achieve. A mostly NGO-friendly legal environment along with strong marks in organizational capacity, service provision, public image and other dimensions of the *Index* still do not ensure overall long-term viability. In many cases, the sector remains vulnerable to forces both within and beyond its control.

This reality is one of the main motivations behind USAID's central role in establishing post-presence assistance mechanisms to support civil society after the Agency closes its Missions. These innovative mechanisms involving other national and foundation donors constitute an implicit recognition that sustainability remains a long-term objective even in the countries that are farthest along in the post-communist transition.

EVOLUTION OF USAID CIVIL SOCIETY PROGRAMS

Issues related to sustainability should be viewed in the broader context of changes over time in USAID's thinking about civil society and NGOs. The institution is not monolithic but it is possible to trace the evolution of a dominant orientation, the content of which has been influenced by the Agency's own on-the-ground experience and important works in

the academic literature and foreign policy commentary. (See Stephen Larrabee's essay on some recent works on civil society.)

USAID's view of civil society and corresponding expectations about the NGO sector's ability to bring about fundamental change has predictably evolved since the Agency first began democracy and governance programming in the former communist countries/Soviet republics. In the early days, USAID saw civil society largely as an end in itself, a pillar of a well-functioning, robust democratic polity. The hegemonic position of the communist party and the virtual elimination of any competing source of power and authority, whether NGOs, business entrepreneurs or the Church, led assistance decisionmakers to place a high value on the emergence of civil society as a bulwark of a democratic system.

Questions of effectiveness and impact were secondary considerations, though advocates of support to civil society could point to the Velvet Revolution in Czechoslovakia and the triumph of Solidarity in Poland as evidence of civil society's ability to influence political outcomes. For the most part, the emphasis was on expanding the size of the NGO sector and boosting citizen participation. Policy-centered organizations were not necessarily privileged over social service delivery groups, owing to the sound premise that in countries where civil society had all but been proscribed, citizens joining together for even narrowly self-interested ends represented enormous political progress. Perhaps reflecting the less targeted goals of the early period, funding of the Third Sector was not terribly strategic. The guiding principle appeared to be 'let a thousand flowers bloom,' an approach content to spread assistance resources fairly widely and wait to see where it gained the most traction.

Over time and for a variety of converging reasons, decisionmakers in Washington and the field developed higher expectations with respect to the impact of efforts to support the NGO sector. Part of a larger shift toward results-based programming, the Third Sector was increasingly judged on its ability to effect change, particularly policy at the national level --albeit allowing for poorer performance in the more repressive political environments. As a consequence, civil society programs, including those to fortify NGOs, became more targeted and focused on contributing to the introduction and implementation of second-generation political and economic reforms. It remains a question for debate whether the tilt away from service provision organizations was the product of a false trade-off between different kinds of groups. NGOs in various regions of the world, most notoriously groups such as Hamas and others affiliated with radical Islamic activists, have demonstrated the effectiveness of using a primarily service delivery strategy in order to leverage advocacy and political mobilization potential of beneficiaries and the wider population.

Another aspect of the evolution in thinking and practice with respect to USAID's approach to civil society strengthening involved the gradual shift in focus by the Agency and other donors to geographic areas beyond the national capital and other major urban

centers so as to support organizations in the provinces. In the early years of assistance in this sub-sector, USAID and other donors unconsciously reinforced the hyper-centralization of the Soviet period in which urban-based elites viewed the regions with disdain, which goes a long way to explaining a history of enormous disparity in resource allocation between center and periphery.

It is not hard to see why foreign funding for NGOs initially went disproportionately to groups clustered in the national capital. The leaders of these groups were often courageous, compelling men and women, highly- Westernized English speakers who seemed well positioned to effect change and were keenly attuned to what donors wanted. But the organizations they headed were all too frequently personality-driven entities that lacked both capacity and influence with policymakers and were wholly isolated from the larger body politic.

The U.S. and other donor nations came to appreciate the importance and instrumental value of strengthening civil society in smaller municipalities and rural areas. The majority of these groups were engaged in social service delivery, filling part of the void left with the collapse of the much-vaunted communist cradle to grave social welfare system. At one level this seemed at odds with the increasing priority accorded advocacy-oriented organizations seeking to influence the course of government policy. But it also was a recognition that a country's political future is not determined solely by elite-level machinations in Moscow or Kyiv or Belgrade. Not only did the regions matter in this regard but USAID, confronted with national governments hostile to reform and conscious of growing disillusionment vis-à-vis the implicit promise of free-market democracy to improve people's material circumstances, balanced its support for national think tanks and advocacy organizations with funding for grassroots groups trying to address day-to-day struggles confronting the citizenry.

There is good reason to think that this dual track strategy has contributed to enhanced sustainability of the sector by forging links between NGOs and communities and implementing programs that have readily identifiable beneficiaries. Organizational capacity, sector infrastructure and public image improved in many countries as did the know-how to provide services and to tap into local resources. More surprising is that advocacy at the grassroots level was also strengthened as NGOs found themselves seeking to influence governmental processes at the municipal level, often times having greater success, for example, in expanding opportunities for popular participation -- through public hearings on the budget, town hall meetings, community development committees-- than their better-funded counterparts in the capital and other major cities.

Still, USAID had set a more exacting standard for civil society in terms of catalyzing the acceleration of reform at the national level. With the State Department and USAID emphasizing graduating countries from USG assistance, program architects and managers

were anxious to see movement along the reform path and a plausible case that the U.S.-supported Third Sector had contributed to the outcome.

Judged against this tougher standard, civil society was hard pressed at times to fulfill the expectations of some donor agencies. With the notable exceptions of civil society's prominent role in the ouster of Serbian strongman Slobodan Milosevic and the defeat of the Meciár government in Slovakia, the Third Sector was seen as failing to propel significant progress on economic and political reform and as having limited effectiveness in preventing democratic backsliding across much of the post-communist landscape. Popular political mobilization in Georgia, Ukraine and Kyrgyzstan in response to election malfeasance by sitting governments has rekindled expectations among both activists in the region (and beyond) and donors that civil society can be instrumental in producing fundamental political change.

Whether these greater expectations are based on an accurate analysis of the breakthroughs in Georgia and Ukraine is a subject of inquiry among regional and functional specialists inside and outside USAID. Key questions include: What role did long-standing USG support for the Third Sector play in helping to lay the groundwork for developments in those two countries? What are the implications for present and future programming? What if any generalizations can we make about the efficacy of support for NGOs? Where and how should USAID target its limited resources?

Assessing the impact of civil society on macro political processes is not the same as gauging progress of the NGO sector with respect to sustainability. That Ukrainian NGOs were pivotal in Viktor Yushchenko's becoming president does not necessarily tell us about the sector's prospects for long-term viability. This points up a potential minor tension between competing imperatives in the democracy sphere. On the one hand, USAID is firmly committed to helping the Third Sector become a vibrant and enduring part of the post-communist political landscape. The Agency has dedicated considerable time, energy and resources to enhancing the NGO sector's staying power, including devising legacy mechanisms to provide post-presence support. On the other hand, there is a natural inclination to press NGOs to demonstrate near-term impact (at its most ambitious, bringing about regime change in quasi-democratic or full-fledged authoritarian systems) that may entail approaches that are not necessarily the most efficacious choices if the paramount goal is sustainability.

Near-term success can be pivotal to the prospects of longevity but trade-offs between the two objectives cannot be ruled out. Stated differently, does USG emphasis on sustainability encourage the Third Sector to adopt strategies that may well increase its long-term potential but which miss or even retard promising near-term opportunities for advancing democracy-related goals? In practice, these two goals are quite compatible. Support to NGOs to help them develop the set of skills they need to exploit sudden targets of opportunity to influence political outcomes will not work at cross purposes

with efforts to promote sustainability in the form of headway across the various dimensions that comprise the *Sustainability Index*.

Evidence of congruence can be found in the fact that among the former Soviet republics, Ukraine, Georgia and Kyrgyzstan, the three countries most recently rocked by popular (and at least in the first two cases, democratic) movements, received the highest score in the 2003 version of the *Sustainability Index*. To be sure, the capacity to mobilize supporters for short-periods ought not be confused with long-term staying power. But the ability to organize effectively, to work in coalitions, to advocate forcefully on behalf of a few galvanizing ideas, and to use the media with considerable skill all reflect discernible progress in key *Index* categories.

REFLECTIONS ON MEETING THE CHALLENGES OF NGO SUSTAINABILITY

In looking at the broad sweep of countries that fall within the purview of the *NGO Sustainability Index* and even taking account of the shared legacy of communist autocracy, increasing variation since the collapse of communist rule makes it difficult to generate even qualified generalizations about efficacious strategies and approaches to bolster NGO sustainability. Moreover, this essay does not offer an in-depth evaluation of past and present programs so as to yield confident conclusions about best practices. Rather, this section presents some key findings and highlights a select number of innovative ideas and initiatives pursued by field Missions and USAID/Washington that hold out promise to advance the capacity of the Third Sector in the various *Sustainability Index* categories.

Across the region, USAID Mission staff and their Washington colleagues are implementing a range of programs designed to strengthen the Third Sector so it help shape political developments in the short-term while acquiring the combination of skills and resources to persist in those efforts over the long haul.

A reading of the individual country submissions makes clear there is no one model strategy or program that will ensure NGO sector viability. Similar approaches have met with widely different levels of success in seemingly comparable countries.

It remains the case that efforts to fortify NGO sector sustainability should be tailored to the particular circumstances of the target country. The starting point must necessarily be a deeper understanding of the constellation of inter-acting forces that drive the evolution of that society. This is the rationale behind the Office of Democracy and Governance developing a strategic assessment framework, which is supplemented by sector specific assessments. Taken together, these analytical applications help answer first-order questions for program architects and managers. Who/what are the fundamental drivers of change? Who/what are the major impediments to realizing that goal and how can they be

overcome? Answers to these and other first-order questions must undergird any attempt to devise an assistance strategy to promote NGO sustainability.

* Recent events in Ukraine, Georgia, and Kyrgyzstan, and earlier in Azerbaijan and Slovakia, illustrate the **potential catalytic role of elections in galvanizing political parties and civil society** in the face of actual or perceived illegalities perpetrated by ruling elites intent on retaining their hold on power despite flagging support and legitimacy. Importantly, all of these countries could be considered quasi-democratic/authoritarian in that there existed some latitude for political contestation (e.g. opposition political parties, functioning democracy and human rights NGOs, elements of an independent press), though by no means a level playing field. Reaching back a bit further, even Serbia on the eve of Milosevic's ouster from power was characterized by the active engagement of opposition political forces, which had actually succeeded in defeating ruling party candidates in mayoral elections in the major cities prior to the contested presidential election that brought down the dictator. In most of these cases, NGOs and pro-reform political parties also learned a great deal from earlier unsuccessful political mobilizations that served as something of a dress rehearsal.

The impact on the NGO sector in each of these election-centered mobilizations was to raise the sector's sustainability quotient in many of the *Index's* main categories. This suggests that local NGO actors with support from donors should continue to approach elections as both singular events around which to organize pro-reform constituencies and as part of a longer-term and larger process of citizen-centered accountability and broad-based participation in public life.

* Introducing and **integrating a concern for sustainability at the earliest stages of large-scale assistance** appears to increase significantly the likelihood of sector progress in that direction. Challenging assistance recipients and the sector as a whole to internalize the goal of sustainability from the outset and to orient their organization strategy accordingly does pay dividends. At a minimum, this involves getting groups to think seriously about revenue-generation, whether charging for in-demand publications, providing services (e.g. technical advice, training), becoming a membership-based organizations with dues-paying members, putting together a viable fundraising strategy or other ideas.

* More ambitiously, donors could **make local capacity building a core requirement of all civil society related programs** as well as of interventions in other areas where NGOs could play a role, whether health, humanitarian relief, social sector restructuring or even economic growth. The establishment of intermediary support organizations (ISOs) and NGO resource centers, which have been a signature feature of many USAID country strategies, provides a firm foundation. Nurturing a 'sustainability mindset' would also seem to require a greater emphasis on local ownership, including a partnership with donors that cedes to indigenous groups more decisionmaking authority over priorities and strategy development.

* **NGO-government relations** have improved in virtually all of the countries covered by the *Index*, including in some of the most authoritarian, where local officials have cooperated to mutual advantage with NGOs and civic groups. Conscious of the need to maintain independence and vigilant in safeguarding their watchdog function, NGOs are eagerly demonstrating they are skilled and valuable partners in meeting society's development challenges through delivery of social services, informing citizens, protecting minority rights, helping to craft and secure passage of legislation, training government officials etc. However, for those organizations engaged in democracy and human rights work, particularly in more authoritarian political settings, government funding is rarely available or appropriate.

* One of the more innovative ideas that has been tried in several countries with discernible impact is the **creation of community-based foundations**. Given the generally lower level of socio-economic development found in the provinces compared to the capital and other major cities, it may seem surprising that these foundations have met with success. But organizations that are firmly embedded in the community and that carry out work that affects people's lives in tangible ways are more likely to elicit support, including financial backing, even where monetary resources are scarce. (See David Moore's essay on promoting financial sustainability.)

* Another promising idea that is gaining wider application is **legislation that allows individual citizens to direct a small percentage of their tax bill (usually 1 or 2%) to non-profit organizations**, including NGOs. Hungary was one of the pioneers and several other Central European and Baltic countries have followed suit. The advantages and drawbacks of "percentage philanthropy" are discussed elsewhere in this report. Suffice to point out here that these mechanisms appear to have generated more resources for the sector as a whole but still represent a small percentage of total sector revenue and hence do not constitute a solution to the ongoing challenge of long-term financial viability.

* **Post-presence and legacy mechanisms**, as mentioned elsewhere, were established as a way to ensure an ongoing level of financial and technical support for the NGO sector following the phase out of USAID assistance. With an eye toward fortifying sector sustainability, USAID secured additional funding and adroitly helped to leverage resources from large foundations and other governments. The well-founded motivating concern behind the concept of post-presence mechanisms was that an abrupt termination of U.S. assistance would cause the NGO sector in a given country to undergo a significant disruption that could put at risk hard-earned progress to date and push into the distance any hope of sustainability.

* **Public-private collaboration** between host-country NGOs and the international and local business communities is expanding, generating an alternative source of funding and creating opportunities for civil society and private sector cooperation in pursuit of common interests, such as combating corruption, promoting business associations etc. With the assistance of USAID and other donors, NGOs across the post-communist space have employed a variety of ways to link with indigenous and foreign for-profit firms,

occasionally in a tripartite arrangement with the host government, at both the national and local level.

* **Forging effective coalitions** is an area widely acknowledged to require significant improvement if the NGO sector is to gain a permanent foothold in the post-communist political terrain. The overall record of forming coalitions with the requisite capacity and leadership to effect change and to advance Third Sector long-term viability is decidedly mixed. But across the region, home grown and donor-instigated efforts have resulted in more, better coordinated activity undertaken by coalitions. Especially in repressive countries where the overriding common problem is so evident, NGOs have a powerful incentive to work collaboratively, for example, on enactment/ enforcement of laws that affect the sector, public outreach, resisting government harassment etc. Multi-pronged anti-corruption campaigns have shown promise in settings as diverse as Albania and Russia. There is reason to hope that coordinated action in the Rose and Orange Revolutions will give a boost to coalition building efforts beyond Georgia and Ukraine. Effective coalitions do not guarantee Third Sector longevity but feckless ones divorced from the citizenry almost certainly preclude that outcome.

The **establishment of secretariats** to help carry the administrative and coordinating burden of coalitions has been used to some success in a few countries. A comparable, more common approach has been the **creation of umbrella organizations** under which NGOs with different issue orientations and varying levels of influence can gather in pursuit of a shared goal. Another strategy designed to boost coalition vitality and impact while also embedding NGOs more firmly in the larger society is to **include both urban-based and local community groups and to forge links between them**. The combination of some groups focusing on national policymakers while others build grassroots support in favor of desired reforms has proven effective in several former communist countries of varying levels of political and economic development.

The cause of NGO coalition building and of sector sustainability more broadly would be aided by **better coordination among the key donors at the country level**. Differing agendas and other structural constraints make this easier said than done but trying to devise a more or less common strategy (preferably starting with joint sector analyses) for supporting civil society would be a welcome first step. With overall U.S. assistance to the region in decline, USAID has every reason to cooperate with other donors to agree on a division of labor that exploits their respective comparative advantages in order to maximize programmatic impact. When donors are on the same page they are better positioned to encourage groups, which can be reluctant to cooperate with competitors for funds, to identify areas of common interest and develop a strategy to pursue them.

* As part of a concerted effort to connect to the larger body politic, **NGOs have to hold themselves to a higher standard in terms of accountability and integrity**. NGOs can claim impressive headway in overcoming the negative image that has dogged them since the fall of communism. The low standing in which the sector was held has its genesis in a residual mistrust of virtually all organized political activity and the questionable behavior of some individuals and groups in winning grants from donors but doing little to advance

the goals of reform and a better life for beleaguered citizens. Occasional misuse of funds --enthusiastically chronicled by a cynical press-- has also hurt the Third Sector's public image.

In addition to having to overcome the popularly-held view that most NGOs are out of touch with the day-to-day concerns of ordinary citizens, **NGOs need to counteract the perception that they do not follow their own advice when it comes to promoting good governance, transparency and accountability.** The sector has a ways to go in putting those principles into practice internally in conducting its own affairs. The prominent role played by NGOs and civil society activists in the revolutions in Ukraine and Georgia will help to raise the visibility and burnish the image of NGOs but should not lessen the urgency of efforts to garner public confidence through Codes of Conduct, solid board oversight and other measures supported by USAID civil society strengthening programs to infuse democratic principles and quality management. These steps underscore an admirable, growing acknowledgement on the part of many leading NGOs in the region of the need for effective self-regulation if the Third Sector is to overcome persisting public skepticism and bring its own behavior in conformity with the values and reforms it strenuously champions.

* **Relations with the media**, another area with considerable room for improvement on the part of the NGO sector, **have benefited from training programs that bring together journalists and NGO officials.** These sessions are reported to have increased the quantity and quality of coverage of Third Sector activities --more at the local than the national level-- and given NGO leaders greater access to the press. These links also better position NGOs to influence public policy discourse and to connect with present and future supporters, which in turn, contribute to long-term sustainability, especially for groups that develop integrated communications/outreach and fundraising strategies.

* **Training and exchange programs**, long an important component of USAID civil society strengthening efforts, **have lacked follow-up and any way to gauge impact.** In many post-communist countries and former Soviet republics, program implementers have begun to track participants and help establish alumni groups ranging from judges to high school students. This gives program managers a much better sense of the degree to which participants apply what they learned. These networks also provide a conduit for disseminating ideas and a mechanism for organizing like-minded, usually pro-reform, citizens for lobbying and other political objectives. There is a consensus that the full impact of well-crafted training and exchange programs is more fully realized in the long-term and this would seem to apply to NGOs as well insofar as the sector's chances for sustainability are markedly increased by these programs.

Two final observations bear mentioning. First, the **NGO sector** in almost every country continues to grapple with the complicated issue of its **relationship with political parties.** For readily defensible reasons, NGO leaders have generally proceeded cautiously if at all down this road. Particularly in highly polarized political environments, prominent NGO activists have consciously tried to nurture a popular perception of independence and non-partisanship even as they engage head-on in the most fundamental of political struggles.

With few exceptions, they have avoided close collaboration with ruling or opposition political parties for sound tactical reasons (i.e. in order to portray themselves as not having electoral ambitions but only the public's best interest at heart) and perhaps because they also understand that even when reformers come to power, NGOs still have a crucial role to play in holding the new team of decisionmakers accountable, in advocating for policy reform etc. How to work in common cause with political parties on a given issue without compromising the Third Sector's non-partisan orientation is a challenge requiring adroit leadership and coordination among leading organizations and is also best dealt with on a country-by-country basis.

Lastly, it is well understood by program designers and implementers that their **efforts to bolster civil society and render the NGO sector more sustainable are far more likely to yield meaningful results if closely aligned with broader policy and diplomatic objectives**. This is again all the more true in repressive political settings, which make democracy and governance work both harder and more controversial. Given that NGO sector sustainability and hospitable political environments are so closely correlated, USG efforts to press host governments to permit greater space for civil society and, more expansively, to view indigenous NGOs as capable and valuable partners in the development process, are indispensable to the goal of Third Sector sustainability.

CONCLUSION

The NGO sectors in many countries in the Europe and Eurasia region have registered impressive progress toward the highly desirable goal of sustainability in the years since the collapse of communist rule. In other countries, the road is much longer and more daunting. Yet even where the sector has made the most impressive gains, it is far from achieving long-term staying power. Dissemination and possible replication of best practices, tighter congruence between program and policy, greater ownership and strategic collaboration by host-country NGOs all have potential to contribute to sustainability. At the same time, expectations more closely aligned with the reality of contemporary challenges, especially for democracy and human rights groups that often serve as the courageous and locally undervalued vanguard of the Third Sector, would be an important step.

The inspiring popular democratic movements in Ukraine and Georgia along with a number of promising innovations emerging from the ranks of NGOs across the full span of the former communist empire offer a vivid reminder that the Third Sector is a resilient, dynamic, powerful and potentially enduring force helping to shape the evolution of these societies in transition.

LAWS AND OTHER MECHANISMS FOR PROMOTING NGO FINANCIAL SUSTAINABILITY

*David Moore*¹

INTRODUCTION

Among the most pressing questions facing the non-governmental, not-for-profit (NGO) sectors in countries in the CEE/Eurasia region is financial sustainability. From Albania to Uzbekistan, NGOs are still predominantly dependent on foreign donor funding. In many countries of the region, foreign donors are withdrawing or reducing their levels of support, thereby increasing the urgency of the challenge of long-term sectoral sustainability.

This paper seeks to present an overview of legal mechanisms that have emerged in the region of Central and Eastern Europe (CEE) and the Newly Independent States (NIS) relating to financial sustainability, and particularly, for promoting indigenous sources of NGO funding. Section I sets the context by examining potential NGO income sources. Section II provides a brief overview of good regulatory practices that support a sustainable sector and have developed as trends in the region. Section III then turns to highlight innovative funding mechanisms that contribute to financial sustainability of the NGO sector.

This paper does not seek to focus on the financial sustainability of any individual NGO, but rather on legal and infrastructure aspects of financial sustainability of the NGO sector as a whole. Any of the good practices and innovative mechanisms highlighted here may be appropriate for some NGOs but not appropriate for others. In considering the sector as a whole, however, it is important to adopt a holistic approach, as we find below.

CONTEXT: SOURCES OF NGO INCOME

To appreciate the challenge of financial sustainability it is necessary to understand the potential sources of revenue for the NGO sector. This is particularly true in countries where the NGO sector is largely dependent on a single category of NGO income. While there is, of course, tremendous variation in the sources of NGO revenue among countries and NGOs within any sector, there are at the same time identifiable trends of NGO financing.

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Nearly all NGO revenue falls within three broad categories. They include (1) government funding, and (2) private giving, or philanthropy, and (3) self-generated income. Government funding includes a broad range of direct and indirect support. Direct funding comes in the form of state subsidies, government grants, and contracting. Exemptions from taxation can be considered a government subsidy. Private giving usually comes in the form of cash and in-kind donations from individuals, businesses, and foundations or other grant-making legal entities. The efforts of volunteers may also be considered donations and can be embraced by the concept of philanthropy. Self-generated income includes membership dues, fees and charges for services (that is, economic activity), as well as income from investments.

In 2003, the John Hopkins University Comparative Nonprofit Sector Project published a comparative analysis on global civil society, which based its findings on research in 35 countries, including five countries of Central and Eastern Europe.² Among other issues, the overview examines the sources of NGO income. The results are revealing:

- Self-generated income is the dominant source of revenue in nearly every country surveyed (53%);
- Government or public sector support also ranks as a significant source of NGO income (35%);
- Private giving – that is, individual, corporate and foundation-based philanthropy – accounts for a smaller portion of NGO income (12%).

It is critical to underscore that there is no ‘magic bullet’ for the financial sustainability of the NGO sector. Solutions to the challenge of sectoral sustainability must lie in a holistic approach, recognizing the relative importance of all categories of NGO income.

LAWS AND MECHANISMS TO PROMOTE FINANCIAL SUSTAINABILITY

Good regulatory practices have emerged in many countries throughout the region to support the financial sustainability of NGOs. Each major category of NGO income, from self-generated income to government funding to private philanthropy, can be encouraged through appropriate regulatory mechanisms. While not all countries have adopted such progressive regulatory approaches, they are common enough to be identified as trends and referred to as ‘international good practice.’

Government support

Government support comes in the form of tax exemptions – in effect, indirect government subsidies – and in the form of direct financing, via budget subsidies, grants

² The study included 16 advanced industrialized countries, 14 developing countries from Africa, Asia and Latin America, and five countries from Central and Eastern Europe, including the Czech Republic, Hungary, Poland, Romania and Slovakia. See “Global Civil Society: An Overview,” Lester M. Salamon, the John Hopkins Comparative Nonprofit Sector Project, 2003.

for specific purposes, and contracts to perform certain work. Tax exemptions recognize that NGOs are using income to pursue a not-for-profit mission, often for the public benefit. For example, income from grants and donations is typically exempt from income taxation. Direct government financing is growing in importance as an income source for NGOs. As recipients of government grants and bidders for government contracts, NGOs are becoming increasingly engaged in service delivery. Legal frameworks generally allow NGOs to receive government funding and, to a somewhat lesser extent, to participate in public procurement procedures. Furthermore, governments in several countries have developed innovative approaches to government funding, from the creation of public funds to taxpayer allocation mechanisms.

Private philanthropy

The most common mechanism for encouraging individuals and corporations to make cash and in-kind donations to NGOs is through tax incentives for donors. Corporate tax incentives for giving to NGOs are commonly available throughout the region, and generally in the form of tax deductions.³ Individual tax incentives are also available in a substantial number of countries. While important, tax incentives are not sufficient to promote corporate philanthropy; donors give based on a variety of motivations, of which tax preferences are only one. The establishment of community foundations in several countries has sought to appeal to a wider spectrum of donor interests in giving. At least equally, if not more important to NGO sustainability are the donated efforts of volunteers.⁴ Yet few countries in the region have developed a framework to support and encourage volunteering.

Self-generated income

One of the most significant issues affecting the ability of NGOs to generate their own income are the laws and regulations governing income from economic activities. In nearly all countries, NGOs are able to engage directly in economic activities, within certain defined limitations. Furthermore, in many countries, income from economic activities is exempt from taxation, albeit to a limited extent. Critical to many associations and membership organizations is income from membership dues; such income is exempt from taxation in nearly all countries in the region.

Grant-making foundations may rely significantly on investments and the income generated from those investments, in the form of interest, dividends, and capital gains. While a substantial number of countries in the region do provide full or partial exemptions from taxation of investment income, few countries have created an environment that supports the maintenance and growth of endowments.

³ The only countries that do not provide donor incentives for corporate giving to NGOs are Azerbaijan, Belarus, Macedonia and Russia. Reform initiatives are underway in Macedonia to provide such incentives.

⁴ According to the John Hopkins study referenced above, the picture of civil society organization revenue changes when the contributions of time represented by volunteers are added to the contributions of money and treated as part of philanthropy. The resulting proportion of sector revenue breaks down as follows: self-generated income (43%), government support (27%) and philanthropy (30%).

MECHANISMS TO PROMOTE FIANCIAL SUSTAINABILITY

Government Funding

Funding trends indicate that government funding is the second largest source of NGO revenue internationally (second to self-generated income). Indeed, for NGOs engaged in health and social service activities, government funding represents the predominant source of income in most countries. And in many EU countries, including Ireland, Belgium, Germany, the Netherlands, France, Austria and the U.K., government funding represents the largest source of revenue for NGOs. This Western European funding pattern is indicative of the significance of the welfare partnership approach, in which the state provides financing for public services, but relies on NGOs for their delivery.⁵

It is inevitable that CEE/Eurasia governments with shrinking resources will increasingly look to partnership with private actors to deliver public services. Yet the potential impact of government funding is far broader and can potentially affect the entire NGO sector, including advocacy and human rights organizations. Government funding takes many forms, from tax exemptions to subsidies and grants, to more innovative mechanisms, which we will examine here.

Percentage Philanthropy

A tremendous amount of attention has been devoted to the rise of percentage philanthropy in recent years – and for good reason. Percentage philanthropy – that is, legal mechanisms allowing taxpayers to allocate a certain percentage of their tax payment to beneficiaries, including NGOs – is one of the most truly innovative funding mechanisms to have emerged from Central and Eastern Europe. Nevertheless, it is not without controversy. Nor is it not a panacea for NGO sector sustainability.

The first controversial issue relates to how to classify taxpayer allocation mechanisms. The very name “percentage philanthropy” directly labels this mechanism as philanthropic giving. After all, the taxpayer is choosing to give a percentage of his tax payment to a private beneficiary rather than to the State. At the same time, the money received by the beneficiary is government money (that is, money owed by the taxpayer to the State) and not a donation of the taxpayer’s own money. In this way, the taxpayer allocation seems to fall more properly within the category of government funding. At best, the percentage mechanism can be seen as a hybrid and called transitional philanthropy.

Hungary introduced the mechanism to Central Europe in 1996, where it has become known as the “1% Law.” Interestingly, the initiative came from the Ministry of Finance, and the goal was to increase resources for NGOs, while also promoting development of a philanthropic culture. Individual taxpayers can designate 1% of their taxes to an NGO (and 1% to a church). There is no cost to the taxpayer; the allocation simply requires

⁵ See “Global Civil Society: An Overview”, Lester M. Salamon, the John Hopkins Comparative Nonprofit Sector Project, 2003.

filling out a form and submitting that form with the filing of tax returns. To be entitled to receive 1% contributions, a foundation or association must carry out public benefit activities.

Following Hungary's lead, several other countries have adopted similar mechanisms: Slovakia, Lithuania, Poland, and most recently, Romania. In Slovakia and Lithuania, taxpayers can designate 2% of paid tax to NGO beneficiaries. Corporations can also take advantage of the 2% allocation in Slovakia. Poland uses a somewhat different procedural approach by requiring the taxpayer, rather than the tax authority, to transfer an amount equivalent to up to 1% of his or her income tax.

The second and more controversial issue relates to the true impact of the percentage mechanism on NGO sustainability and on the development of a more philanthropic culture. There are clear positive benefits to NGOs. First, the sector benefits from receiving a pool of unrestricted funds. In 2001 alone, for example, the equivalent of more than 15 million USD was allocated for NGOs in Hungary. In 2004, the equivalent of more than 22 million euro was allocated to NGOs in Slovakia. Second, NGOs have increased incentives to reach out and develop stronger links to the community, thereby improving their marketing skills and public image. Third, taxpayers develop a greater awareness of civil society and the contributions that NGOs make to society. This may be especially important in countries with low levels of trust and understanding of civil society and may signify an important shift to a more philanthropic culture.

The challenges and limitations of the percentage mechanism are also clear. Despite the impressive amounts allocated to NGOs in Hungary and Slovakia, these resources represent only a small fraction of overall sector revenue; in Hungary, for example, taxpayer allocations are less than 1% of overall sector revenue. Moreover, there is little room for growth of this category of income, as taxpayers are limited to giving only 1%, and in Hungary, the number of taxpayers who designate seems to have reached a plateau of about 35%. In addition, the most likely beneficiaries are those NGOs pursuing causes that resonate with the public (children, animals, disease prevention).

Perhaps most troubling, however, is the impact of percentage laws on "true" philanthropy. A taxpayer may be less likely to make actual donations, because of a sense that he or she has already 'given' to NGOs through the taxpayer allocation. In both Slovakia and Lithuania, following the introduction of the percentage mechanism, the government abolished traditional donor incentives for individuals (and corporations in Slovakia). The net impact on both NGOs and philanthropy could turn out to be negative; in other words, the NGO sector may receive less funding over the long term and fewer individuals and corporations may engage in philanthropic giving. It is too early to assess the full impact of the percentage mechanism, but it does appear to bring mixed blessings.

Privatization Proceeds

The privatization of state-run enterprises has been a pressing and problematic issue in countries across the region during the past 15 years. The Czech Government developed a

truly innovative approach in its privatization process, which provided a significant boost to NGO sustainability, by creating the Foundation Investment Fund (FIF) and by distributing 1% of all privatization proceeds to the Fund, for re-distribution to foundations as endowments. The FIF is governed by a board, which includes representatives elected both by the government and by the NGO sector.

In 2002 alone, 27 million euro was distributed to 64 foundations by the FIF. One-third of all Czech foundations received significant contributions from the FIF. This distribution process created the need for more enabling legislation and led to the enactment of amendments to the Czech Foundation Law (see above). In 2002/2003, there were more than 330 registered foundations in the Czech Republic with endowments valued at more than 80 million euros.

Lottery Proceeds

Lotteries and games of chance offer an alternative source of revenue for NGOs. By directing a designated percentage of lottery proceeds to public benefit purposes, the Government can provide significant support to the NGO sector. In Croatia, for example, the Government directs 50% of proceeds from the national lottery to support certain public benefit purposes, including amateur sports and civil society. Of these proceeds, 14% is currently sent to the National Foundation for the Development of Civil Society (see below), which in turn provides funding to NGOs and community initiatives. Similarly, in Montenegro, the Government has established a lottery mechanism and directs approximately 60% of lottery proceeds to finance plans and programs of organizations active in social services, humanitarian activities, and other public benefit areas, though the criteria for distribution of the funds have yet to be defined. In addition, in Macedonia, the law provides that 50% of proceeds from games of chance shall be used to finance the programs of associations of disabled persons, sports and for the Red Cross of the Republic of Macedonia. The distribution procedures remain opaque, however.

National Funds and Foundations

Strong NGO/government cooperation is fundamental to a healthy funding relationship. NGO/government cooperation can take many forms, from compacts to government strategy documents, to NGO/government liaison offices. In recent years, both Hungary and Croatia have established public funds or foundations specifically dedicated to support civil society and to provide funding to NGOs. Neither, however, has remained free from controversy.

Hungary's National Civil Fund was created by law in June 2003 as an instrument designed to help provide institutional support to Hungarian NGOs. The Fund is financed by the Hungarian government, which provides matching funds based on the amount of actual taxpayer designations under the 1% tax designation law each year, and in no case contributes less than the 0.5% of personal income taxes collected. Thus, the more money designated by taxpayers, the more money contributed by the Government. At least 60% of the Fund's resources each year will be dedicated to providing institutional support to

NGOs in Hungary. Besides covering the costs of the Fund's administration, the remaining funds may be directed towards the support of various programs related to the development of the NGO sector, including sector-wide events, festivals, international representation, research, education or publications. The highest governing body of the Fund will be a Council, consisting of 17 members, the majority of which (12) are delegated by nonprofit organizations.

The Croatian National Foundation for the Development of Civil Society was established through legislation enacted in October 2003. As a public law, not-for-profit entity, the Foundation's mission is to serve and strengthen civil society in Croatia. The establishment of the Foundation marks a shift from a highly centralized public financing system, in which the Government Office for Cooperation with NGOs played the critical role, into a more de-centralized system. The new model of public financing for NGOs -- in which the National Foundation plays an integral part -- envisages an increased role for multiple stakeholders, including the respective ministries, thus ensuring a more equitable distribution of responsibility among government stakeholders. Accordingly, while the ministries will be responsible for the funding of and cooperation with NGOs within their own jurisdictions, the Foundation will focus on supporting grass-roots initiatives and programs that do not necessarily fall within the competence area of any particular ministry.

The clear benefit of the Hungarian National Civil Fund is that NGOs will have a new opportunity to apply for much needed institutional support. At the same time, NGOs will have an additional incentive to increase their efforts at reaching out to citizens for the 1% designations. There are claims, however, that the Fund is being administered so badly that it may have negative effects on the NGO sector over the long term. (See the Hungary report for more details.) Somewhat similarly, the Croatian National Foundation has been at the center of controversy since the 2004 call for proposals was issued, with claims from some Croatian NGOs that grant decisions were not properly carried out under the law. The future shape and impact of the new National Foundation thus remains uncertain.

Private Philanthropy

Throughout the region, there are significant challenges in developing local sources of income. The development of local philanthropy presents perhaps the greatest challenge. NGOs routinely report low levels of citizen understanding and interest in civil society, leading to low levels of donations in the form of either monetary support or volunteerism. Despite the fact that nearly every country has enacted corporate donor incentives, the complaint that few corporations give still rings loudly. Individuals are even less likely to donate money, given difficult economic circumstances and distrust of the NGO sector.

In promoting the development of a more philanthropic culture, the focus is properly on greater community involvement, stronger ties to constituencies, and civic activism. Undeniably, however, there is a strong beneficial impact on the sustainability of organizations that receive support from philanthropic donations of time and money. It is

through this lens that we will now examine two innovative trends in the area of philanthropy.

Community Foundations

As of September 2004, community funds have been established in several cities in Bulgaria. Four of these community funds have raised a total of \$144,506 in cash and \$69,140 as in-kind contributions from local sources. Foundation resources were then used for a variety of community-based projects, including modernizing streetlights, renovating a public swimming pool, and creating a children's playground.

A "community foundation" is a local not-for-profit organization that works to gather, manage and redistribute local resources for the good of the community. Governed by a cross-sectoral board with representatives of business, government and NGOs, the community foundation has a diversified funding base, fed by contributions from business, local government and NGOs, as well as individuals. Usually organized on the local level, the foundation makes targeted grants to a specific geographic region. In some cases, the foundation will develop an endowment to support its goals.

Bulgaria is not the only country to boast of the growth of community foundations. Indeed, the community foundation concept has gained momentum in several countries in Central and Eastern Europe, and in Russia. In Slovakia, for example, there are at least a dozen community foundations, perhaps the most famous being the Health City Community Foundation. In only a few years after establishment, this Foundation was able to create an endowment of \$300,000. In Russia, at least 15 community foundations have been established and have actively supported scholarships, study visits and exchanges, among other activities.

The impact of community foundations is clear. They raise public awareness of local needs, increase local participation in meeting local needs, stimulate cross-sectoral dialogue and partnerships, and promote individual giving. Finally, the establishment of community foundations can, if managed properly, create a long-term local source of funding for civic initiatives and local NGOs. While community foundations are more about building communities than endowments, the community foundation concept is an important model for promoting philanthropy and the sustainability of the NGO sector.

Volunteerism

While usually viewed through the prism of civic activism, volunteerism is also a critical aspect of NGO sustainability. Indeed, the picture of civil society revenue portrayed above changes when the contributions of time represented by volunteers are added to the contributions of money and treated as a source of philanthropy. According the John Hopkins overview, "the inclusion of volunteers in the revenue stream of civil society organizations boosts the average philanthropic share of total revenue from 12% to 30%. This reflects the fact that contributions of time, even when valued conservatively at the average wage in the fields in which volunteering occurs, are twice as large as contributions of money or material."

Since the UN International Year of Volunteers in 2001, there has been increased attention on promoting volunteerism in many countries, especially in Central and Eastern Europe. With greater attention being paid to the benefits of volunteerism, the importance of the regulatory framework for volunteerism has been brought into sharper focus. An enabling legal framework is one of many factors affecting volunteerism; others include public awareness of the importance of volunteerism, promoting private sector support, and research on the impact of volunteering.

Regulatory barriers to volunteering vary from country to country. Often there is simply no clearly recognized legal status for volunteers. Without a recognized legal status for volunteers, host organizations – including NGOs – may risk violating labor code provisions if volunteers do not receive paid compensation. Contract laws may not recognize a volunteering contract. In addition, unemployed individuals serving as volunteers run the risk of having their unemployment benefits rescinded by the State. Tax laws also may not provide proper treatment for volunteers; for example, tax exemptions may be extended to employees for reimbursement compensation, but not to volunteers.

To overcome these barriers, several countries in the region have launched initiatives to improve the legal framework for volunteerism. Some countries in the region, such as Poland and the Czech Republic, have enacted specific legislation on volunteerism. Other countries, including Lithuania, have adopted amendments to existing regulations in the labor law. In several other countries, including Bosnia, Croatia, Hungary and Russia, specific laws have been drafted and are currently under consideration by the respective governments. A supportive legal framework is even more critical in countries that lack a tradition of volunteering – or have a tradition of ‘coercive’ volunteering, as is the case in some NIS countries. Indeed, in Belarus and Uzbekistan, coercive volunteerism (i.e., government requirements that citizens provide their services free of charge to various public projects) is still practiced.

Self-Generated Income

Key to the long-term sustainability of the NGO sector in any country is self-generated income. The NGO sectors in the Czech Republic, Hungary, Poland and Slovakia already receive the bulk of their revenues through self-generated income.⁶ In the countries of Southeastern Europe and the NIS region, the percentage of income through self-generated income is certainly much lower, but will need to rise significantly to sustain the sector.

Social Enterprises

Enabling NGOs to engage effectively in economic activities is of paramount significance. Once the legal framework is in place, the greater challenge lies with developing the capacity of NGOs. Specifically, more NGOs need to develop available services, financial plans, and business skills to be able to conduct economic activity effectively. ‘Social enterprise’ projects are one approach to addressing NGO capacity. A ‘social

⁶ Czech Republic (47%), Hungary (55%), Slovakia (55%), Poland (60%).

enterprise' is a business venture operated by an NGO with a social purpose. Social enterprise projects seek to empower NGOs to operate income-generating ventures and to make a social impact.

Among the most innovative approaches to social enterprise development is that promoted by the Nonprofit Enterprise and Self-Sustainability Team (NESsT) through the Venture Fund. The NESsT Venture Fund is a philanthropic investment fund providing financial and capacity-building support to a select portfolio of social enterprises owned and operated by NGOs in Central Europe. All of the social enterprises are intended to generate revenues to help diversify their financing bases and further the mission of the nonprofit organization.

For example, "Vydra" is a national association of young people dedicated to promoting sustainable rural development in Slovakia. To support this mission and to sustain its operations, Vydra has launched a "Tourist Camp" designed to encourage tourism and to create local employment opportunities. The camp will include a buffet near the new Museum of the History of Forestry, offering refreshments and meals to tourists, cultural events on an outdoor wooden stage, environmental education programs for schools, and recreation areas for tourists. As another example, a Hungarian NGO – the BTA "Megálló" Group – offers rehabilitation services, self-help, work groups and education for alcohol and drug addicts. Megálló plans to launch an alcohol- and smoke-free social meeting point to generate income and further its mission.

Investment Income

The use of "endowments" as a means for creating wealth to finance grant-making foundations and other organizations is not widespread in the region.⁷ There are, however, innovative approaches that have been adopted in some of the new EU Member States. The approach taken in the Czech Republic is particularly instructive.

The Czech Law on Foundations requires foundations to have an endowment with a value of at least 500,000 CZK (approximately 16,000 Euros).⁸ Due to amendments adopted in 2002, foundations may now take advantage of a wider range of investment opportunities, offering potentially higher yields than the more restricted investments permitted under the prior law. In addition, tax-free investments now include capital gains and exchange rate gains, which should allow further growth of endowments. At the same time, the law contains rules for safe investment, limiting investment in designated high-risk instruments. Foundations are also subject to stricter governance rules and independent

⁷ The term "endowment" is used here to refer to that part of organizational assets consisting of money and/or property dedicated to a specific purpose, which cannot be diminished during the life of the organization; periodic income generated by the endowment may be expended to support organizational purposes.

⁸ It is worth noting that many countries do not require minimum levels of capitalization for foundations. This is a policy decision that depends on the desired concept of a foundation. Grant-making foundations need to have some minimum level of capital; operating foundations do not. In countries requiring foundations to have significant capital (as in the Czech Republic and Slovakia), there should be an alternative non-membership form available that does not require minimum capitalization.

audit requirements. Perhaps most important, foundations may now contract with professional financial institutions to handle their investments and provide consulting. Taken together, these improvements in law and practice have created far more stable conditions for endowed foundations – and therefore for the entire NGO sector in the Czech Republic.

CONCLUSION

Financial sustainability is an ongoing challenge for NGO sectors in countries around the world. As the Index reports make clear, the problem is particularly acute, for the NGO sectors in the transitional countries of Southeastern Europe and the former Soviet Union. Those countries that have been most successful in meeting this challenge have employed a range of legal mechanisms that allow NGOs broad opportunity to diversify their funding bases as appropriate to their organizational needs. As these examples demonstrate, to address the transition of NGO sectors to greater financial sustainability, governments in partnership with NGOs will need to consider the multiple potential sources of NGO income. Issues will include promotion of greater opportunities for philanthropy, but also improved mechanisms for government funding and consideration of frequently overlooked areas, such as support for volunteerism.

THE YEAR IN REVIEW: AN OVERVIEW OF SELECT WRITINGS ON CIVIL SOCIETY IN 2004

Stephen Larrabee¹

SUMMARY

As in recent years, 2004 provided scholars, practitioners, students and the general public with a number of note-worthy publications related to civil society, some of which will be of particular interest to readers interested in the Central and Eastern Europe/Eurasia regions. This year, many books and articles seemed to focus on two themes: 1) what exactly is civil society? and 2) how can one measure the effectiveness and the impact of civil society and then use this information to further the goals of the civil society sector? Several useful legal resources were issued this year as well, among them the second edition of *Guidelines for Laws Affecting Civic Organizations*, published by the Open Society Institute -- an excellent overview of the legal issues pertaining to Non-Governmental Organizations. Finally, in 2004 the Social Economy and Law Journal (SEAL) compiled a set of papers that analyzed the cooperation between government and civil society organizations, a timely topic given recent events around the globe.

DEFINING CIVIL SOCIETY

The term civil society certainly has come into vogue in last few years as events have pushed this sector into the spotlight. However, when one asks individuals from major donor organizations, government agencies, the media, or even people on the street how they would define this concept, one is likely to get as many answers as individuals asked. The concept seems fairly simple at first blush, but pinpointing an exact definition has proven quite difficult. Indeed, a review of this year's works which attempt to do just that -- define civil society -- shows that even the leading thinkers on the issue have concluded that no one definition really captures the concept adequately.

Michael Edwards explores, in *Civil Society*, several ways of defining exactly what civil society is and how it affects the world. He reaches a simple conclusion -- there is no one definition. Edwards looks at three different theories on how to define this sector: civil society as *part of a society*, civil society as a *kind of society*, and civil society in the *public sphere*. He argues that all three add value in helping to define and explain what civil society is, but no one theory is all-inclusive.

The first theory holds that civil society can be viewed as *associational life*, one that embraces many different groups and helps bring individuals together to help identify and

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resolve community needs while creating a sense of mutual identity. While this phenomenon does indeed occur, Edwards points out that it is often difficult to distinguish these groups from other entities (government agencies, for-profit organizations and religious movements) and also that associational life can actually curb and deter individual and diverse thinking.

The second theory views civil society as the *good society*, one that represents a consensus on values and norms, and helps to achieve them, by acting to realize the desired results. Once again, the theory is of some added value in understanding what civil society is, but it also falls short in several aspects. For example, the author points out that civil society organizations may well be more concerned with issues that concern a certain group, not society as a whole. Also, other entities, such as government bodies, businesses, and even families, can affect the values and norms of the society as much if not more than civil society organizations.

The final theory turns to the *public sphere* as a way of defining civil society. The public sphere is a place where people gather to discuss and debate issues to help promote a better society. As with the other two theories, Edwards argues that there is some validity to using this definition to help understand exactly what civil society is but it is not comprehensive. The author includes several examples in the book which show how the public sphere can actually be a place where no civil debate ever occurs and special interest groups use the forum to help promote their own ideas.

In conclusion, the author stipulates that all of these theories, along with others, help describe what civil society is and does, but on their own, they fail to suffice in their goal of being a “true” definition of civil society. Considered together, however, they can enable us to understand better why civil society has drawn the devotion of so many people, so many resources, and so much toil, particularly during the past quarter century or so.

Another book that takes an in-depth look at the role that civil society plays is *Creating a Better World: Interpreting Global Civil Society*, edited by Rupert Taylor. As the title suggests, this work focuses on the meaning and significance of civil society at the global level. Taylor notes in his opening essay the many attempts to define and explain exactly what “global civil society” is, as well as the ambiguity and disagreement that have accompanied these efforts. Taylor faults the tendency of most social science work in the field to define global civil society in negative terms, and more particularly, for adopting a non-normative approach to consideration of the global civil society phenomenon (i.e., one that considers the structure of global civil society in terms of the types of organizations of which it is composed). In contrast, Taylor and the contributors to *Creating a Better World*, attempt to advance “a more sociologically informed interpretation of global civil society and its transformative potential . . .”

Specifically, Taylor argues for re-introduction of norms into the definition of global civil society, reflecting that “at a subjective level, the intent of global civil society is to confront neoliberal globalization and create a better world through advocating a fairer,

freer, and more just global order. . .” To illustrate, Taylor includes studies of a number of organizations and social movements, including the Seattle WTO protest, the Genoa G-8 protest, labor movements in the global south, environmentalists in Europe, as well as the work of development NGOs. Taylor suggests that civil society may be best studied by how the actors themselves view these types of movements challenging the status quo, because how the actors view the movement often represents the normative values of the community.

Civil Society in Democratization, edited by Peter Burnell and Peter Calvert, compiles essays presenting different theories of civil society along with critical studies of the role of civil society, and relate this information to the democratization of a society. The book suggests that the term “civil society” now denotes a very different kind of activity than it did in the 1970s and 1980s, when civil society was seen as opposing governmental objectives. In an example of this turn-around, civil society in Central and Eastern Europe now has a role in the preservation of liberal-democratic political systems and free market economies.

Two articles focus in particular on how democracy-building efforts in the CEE region have affected the development of civil society. In the first, “*Democratization in Bosnia: The Limits of Civil Society Strategies*,” David Chandler somewhat provocatively suggests that funding from the European Union and the United States has done little to promote democratization and peace-building, and has mainly created dependency on these nations and furthered disincentives for Bosnians to solve their own problems. Chandler argues that democratic institutions will only emerge after the development of a strong civil society sector, and suggests that the top-down approach of international regulators, like the OSCE mission in Bosnia, and the bottom-up approach of civil society have not complemented each other, adding to further conflicts. He then goes on to suggest that the basic questions of political self-government among other core issues need to be resolved before civil society has space to develop. This will be a daunting task, according to Chandler, because the international community has dictated the process of democratization instead of giving the Bosnian people an opportunity for an active role in the decision-making process in the country.

In “*Building Civil Societies in East Central Europe: The Effect of American Non-governmental Organizations on Women’s Groups*,” Patrice McMahon, analyzes the relationship between American NGOs and women’s groups in Hungary, Poland and Russia. The conclusion she draws is that the influence of American organizations may actually have a detrimental effect on the other NGOs in these countries. She concludes that the western agenda of these NGOs has led to a backlash in the promotion of western feminism, and has led to the development of more indigenous concepts of feminism in these countries.

ASSESSING AND EVALUATING CIVIL SOCIETY

As hard as it is to define exactly what civil society is, it may be even harder to evaluate the impact that civil society has in the world and the benefits that organizations involved in this sector bring to their respective communities. As in prior years, studies have been conducted and articles published that try to measure this impact. Given the purpose of USAID's Sustainability Index – measuring development of civil society organizations – these studies offering alternatives means of assessing civil society's impact are like to be of particular interest to readers of the Index, and they are briefly highlighted below.

In *Civil Society: Measurement, Evaluation, Policy*, Helmut Anheier offers a methodology for analyzing and understanding the impacts of civil society. The author notes the emerging prominence of civil society, and the concomitant need for more and better information to include civil society in policy dialogue. Anheier's work aims to support understanding of civil society, and its place within the broader social sciences, and to facilitate better policy development through a systematic means of collecting and presenting data. The information thus developed should be a useful tool to measure the impacts of civil society achievements and to facilitate improvements.

The book introduces a methodology – the Civil Society Diamond, or CSD -- to assess the contours, strengths, and weakness of civil society in a particular environment as a means of facilitating the development of policy options. The CSD is intended to be an applied research tool. The “points” of the CSD focuses on four dimensions of civil society: structure, values, the external environment, and impact. Anheier details a number of indicators built around these dimensions, and offers preferred, standard and optional measures as to whether these indicators are met. The methodology suggests means of compiling this data to predict civil society's strategic and policy options. This information can then be used to directly influence policy-making decisions. The book includes studies of the application of the methodology to four former communist countries in Central and Eastern Europe and Eurasia: Belarus, Croatia, Estonia, and Ukraine. The use of this new methodology in these countries allowed civil society stakeholders for the first time not only to gather descriptive information and statistics, but also to be active participants in the development, implementation, analysis and discussion of the project.

Anheier's methodology provided the framework for another recent project that aims to provide tools for assessing the impact of civil society – the CIVICUS Civil Society Index. CIVICUS describes the Civil Society Index as a “participatory, action-research project to assess the state of civil society around the world.” Its goal is to create a “knowledge base and impetus for civil society strengthening initiatives.” In 2004, CIVICUS released its paper on the project's design (Volkart Finn Heinrich, “Assessing and Strengthening Civil Society Worldwide” 2:1 CIVICUS Civil Society Index Paper Series (2004).) The paper describes the project methodology, which anticipates implementation by local civil society organizations in a given country, and has been applied in 60 countries thus far. It provides in addition the 74 indicators that were built around the CSD dimensions.

Global Civil Society: Volume Two: Dimensions of the Nonprofit Sector, prepared by Salamon, Sokolowski, and Associates, continues a well-known and regarded effort to assess the effectiveness of civil society. The book introduces a new “Global Civil Society Index” to provide information on the nonprofit sector in 36 countries. The Index helps measure the development and sustainability of civil society and focuses on several different components, considering, among other issues of significance in the development of the non-profit sector: the privatization of the state welfare system; fostering legitimacy of the non-profit sector through self-regulation; capacity building and sustainability of the non-profit sector. The Index includes examples from the CEE region, such as its consideration of the development and sustainability of civil society in Poland. This work highlights the significance of time in the development of the non-profit sector, noting that it far exceeds the role that contributions of money play in the success of the sector’s institutions.

LEGAL RESOURCES

For anyone interested in a simple, straight-forward, in-depth review of the issues and laws that effect civic organizations, the OSI sponsored *Guidelines for Laws Affecting Civic Organizations* is a must read. The book provides a comprehensive review of all the major issues relating to civil society including: Legal existence of civic organizations; structure and governance; activities; fundraising; reporting and enforcement; tax preferences; government relations; and methods of voluntary regulation.

Combining the use of different theories, examples of best practices and current legislation in a variety of countries, the reader is presented with an overall picture of the development and regulation of the civil society sector. The book emphasizes that one single set of rules will not work for each country, but rather, that governments and organizations must explore a variety of options to determine what will work best for its particular needs.

The book is a very useful resource and guide for all interested stakeholders: scholars, students, NGO leaders, government officials and the layman on the street. Each will be able to glean the information in which he or she is interested, and can use it to help understand civil society better and also to make more informed judgments and decisions about this particular sector.

Several publications focusing on taxation of NGOs were issued this year; these cover a number of issues that have been a focus of efforts to create a more enabling environment for and ensure the financial sustainability of NGOs in CEE and Eurasia. *The Tax Treatment of NGOs: Legal, Ethical and Fiscal Frameworks for Promoting NGOs and their Activities*, edited by Paul Bater, Frits Hondius, and Penina Kessler Lieber, compiles essays focusing on a number of critical NGO taxation issues, including theories of NGO taxation, and comparative and international problems relating to NGO taxation, and national and regional tax treatment of NGOs in 9 countries and regions. The book notes that most national taxation regimes allow certain privileges to non-governmental, non-

profit organizations of public benefit. However, there has been little done to resolve the cross-border treatment of NGOs, thus international extension of these tax benefits has been stagnant.

One of the book's essays addresses a problem also noted in this publication – the difficulties posed for international NGOs seeking to gain tax benefits in Russia. Natalia Bourtseva, in *Status and Taxation of Representative Offices of Foreign and International NGOs in Russia*, describes the cumbersome and expensive registration process that is required in Russia for international non-profits to gain tax-exempt status. For instance, the representative office of the international non-profit is required to pay at least one-thousand US dollars annually to gain and retain accreditation. However, the requirements for tax exempt status in establishing a domestic NGO are less stringent with a one-time thirty-five US dollar registration fee. Once tax-exempt status is given both international and domestic non-profits are entitled to the same tax benefits.

For those interested in taxation of NGOs in the CEE and Eurasia region, the International Center for Not-for-Profit Law published two USAID funded books that collectively survey the tax rules governing NGOs in 27 countries and provinces: *The Survey of Tax Laws Affecting Nongovernmental Organ-izations in Central and Eastern Europe (2d edition)* and *The Survey of Tax Laws Affecting Nongovernmental Organ-izations in the Newly Independent States*. The *Surveys* provide a practical summary of the tax rules in place that can serve as a reference work for those seeking legal reform.

COOPERATION BETWEEN GOVERNMENT AND CIVIL SOCIETY

In the last few years, some government leaders have turned an ever more critical eye towards the role that civil society plays in their respective countries and the ultimate goals and reasons for their existence. These leaders have stated publicly, and privately, that the agendas of some civil society organizations are not in the best interests of the government or the countries they serve. Given this set of circumstances, it is now more important than ever that government agencies and civil society organizations work together to develop a vibrant third sector that works in cooperation to benefit society as a whole and puts to rest any negative speculation that surrounds the operations of civil society. In the winter of 2004, the SEAL journal published a set of articles on-line that examined this relationship and the recent trends; key points are summarized below.

Several countries have made inroads in recent years to establish permanent working relationships between government agencies and members of the civil society sector. The two main components have been an increase in participation of NGOs in the legislative process and funding mechanisms established by the government. Through legislative initiatives, some of these countries have created Public Councils at the regional and local levels that bring government officials and NGO representatives together to work in cooperation to help initiate, discuss and implement new legislation that affects the sector. These relationships include NGO representatives' participation in working groups with government officials; evaluating and commenting on draft laws; conducting public hearings on draft laws; and helping to initiate new draft laws.

Many countries have also established direct funding mechanisms from the state budget to NGOs. These include procurement regulations allowing NGOs to take part in the bidding process; direct social contracting through which the government provides direct funding for NGO-run institutions such as orphanages, facilities for the disabled, or housing for the elderly; or direct subsidies that allow NGOs to be agents, partners or subcontractors of government agencies in implementing programs.

These initiatives represent a positive step towards improving relations between the two sectors, but have also raised some concerns. The Public Councils which have been created generally serve only advisory and opinion-forming roles, minimizing their influence over the legislative process. Also, in most countries, the NGO members who serve on the councils are selected by government agencies, putting into question the ability and influence of these members.

Even though most NGOs welcome the opportunity to receive direct funding from their respective governments, some of the programs that have been initiated are not seen as being completely favorable. For instance, in some countries there is a total lack of transparency in the awarding of public funds. These include awarding funds based on individual decisions of government officials, rather than through a transparent grant-making process; awarding funds based on a prior year's activities without a current budget submission from the NGO; and award of a disproportionate share of the state funds to certain NGOs based on affiliation with the political party in control of the country. Also, NGOs in many countries complain that most state funding ends up going to quasi-non-governmental organizations, or QUANGOS. These are state sponsored organizations that often have connections to government officials. Finally, increased government funding often results in an increase in paperwork and a decrease in independence of the NGO receiving the funds – developments that are not seen as advantages by NGOs and other stakeholders.

CONCLUSION

The concept of civil society and its role in shaping the decisions made by each country continues to evolve over time. Several of this year's publications have tried to conceptualize and evaluate this process to help assess the impact that civil society has played. These works provide a useful guideline for the layman as well as the scholar. The issues presented are of global significance, as the works here make clear, and the challenge for practitioners in the CEE/Eurasia regions will be to determine how to adapt the lessons encapsulated in them to local context.